



Lynn M. Carlson & Co.

CERTIFIED PUBLIC ACCOUNTANTS

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UTELITE CORPORATION

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To the Board of Directors

UTELITE CORPORATION

Coalville, Utah 84017

We have reviewed the accompanying statement of assets and liabilities--income tax basis of **UTELITE CORPORATION** (an S corporation) as of December 31, 1998, and the related statements of revenues and expenses--income tax basis, retained earnings--income tax basis and cash flows--income tax basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the owners of **UTELITE CORPORATION**.

The financial statements have been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note A.

LYNN M. CARLSON & CO.

March 9, 1999

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UTELITE CORPORATION STATEMENT OF ASSETS, LIABILITIES & EQUITY--INCOME TAX BASIS December 31, 1998

ASSETS

CURRENT ASSETS		
Cash	\$	298,560
Trade Accounts Receivable		816,311
Material Inventory		142,538
Notes Receivable ShareholdersCurrent		25,000
TOTAL CURRENT ASSETS		1,282,409
PROPERTY AND EQUIPMENT		
Land		416,779
Buildings, Structures & Land Improvements		426,667
Plant Machinery & Equipment		4,527,172
Pollution Control Equipment		604,732
Machinery		783,670
Autos, Trucks, Trailers		102,440
Office Equipment		69,152
Less Accumulated Depreciation		(4,928,102)
		2,002,510
OTHER ASSETS		
Notes ReceivableLT		7,500
Notes Receivable ShareholdersLT		162,229
Assets in Progress		59,424
		229,153
	<u>\$</u>	3,514,072

LIABILITIES AND STOCKHOLDERS' EQUITY

CIIDDENIT	TTADIT	TATTE
CURRENT	LIABIL	

Accounts Payable \$ 213,736 Accrued Payroll Taxes \$ 3,543 Notes Payable--Current \$ 193,604

TOTAL CURRENT LIABILITIES 410,883

LONG TERM LIABILITIES

Notes Payable--LT 796,929

TOTAL LIABILITIES 1,207,812

STOCKHOLDERS' EQUITY

 Common Stock, Par Value \$1.00
 164,757

 500,000 Shares Authorized
 164,758 Shares Issued, of which

 49,690 are held in Treasury
 235,415

 Premium on Capital Stock
 (49,370)

 Retained Earnings
 1,955,458

2,306,260

\$ 3,514,072

UTELITE CORPORATION STATEMENT OF REVENUE AND EXPENSES--INCOME TAX BASIS December 31, 1998

SALES		6,268,591
COST OF SALES		
Inventory Adjustment & Purcha	ases	97,445
Direct Labor		1,024,262
Plant Power & Utilities		154,912
Kiln Fuel		604,239
Delivery Expense		2,132,391
Small Tools		9,893
Supplies		42,025
Repairs & Maintenance		438,443
Fuel & Oil		85,026
Raw Material Royalties		41,659
Contract Mining		16,766
Lab & Testing		5,197
MSHA		2,804
Air Pollution		26,867
711 1 Oliction		4,681,929
	GROSS PROFIT	1,586,662
EXPENSES		
Marketing & Promotions		26,234
		156,992
Employee Benefits		75,788
Payroll Taxes		5,309
Advertising		9,744
Travel & Sales		26,720
Insurance Telephone		14,961
Telephone Legal & Professional		32,176
		25,148
Office Supplies & Postage Taxes & Licenses		41,091
Auto Allowance & Expense		16,726
Miscellaneous & Bank Charges		12,985
Dues & Subscriptions		13,117
Training		6,348
Depreciation		554,151
Management & Accounting		7,700
Rents & Leases		90,452
ESCSI ESCSI		19,138
Depletion		104,656
Bopietion		1,239,436
	INCOME FROM OPERATIONS	347,226
OTHER INCOME (EXPENSE)		
Interest & Dividend Income		13,392
Gain or (Loss) on Sale of Assets		7,182
Interest Expense		117,268
		(96,694)
	NET INCOME §	250,532

See accountant's report and notes to financial statements. Page 4

UTELITE CORPORATION--TAX STATEMENT OF CASH FLOWS--INCOME TAX BASIS December 31, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$	6,454,595
Interest and dividends received		13,392
Other operating receipts		7,501
Cash paid to suppliers and employees		(5,278,967)
Interest paid		(117,268)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		1,079,253
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property		(267,307)
Cash proceeds from the sale of property		7,500
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		(259,807)
CASH FLOW FROM FINANCING ACTIVITIES:		
Net borrowings on line of credit		0
Principal payments on long-term debt		(422,781)
Dividends paid		(115,001)
Proceeds from issuance of long-term debt		50,349
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		(487,433)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	_	332,013
CASH AND EQUIVALENTS, BEGINNING OF YEAR		(33,453)
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	298,560

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Net Income	\$ 250,532
Adjustments to reconcile net income to net cash	
provided by operating activities:	
Depreciation and amortization	658,807
(Gain) loss on disposal of property	319
(Increase) decrease in accounts receivable	193,349
(Increase) decrease in prepaid expenses	0
(Increase) decrease in inventories	97,445
(Increase) decrease in other assets	(7,345)
Increase (decrease) in accounts payable	(32,837)
Increase (decrease) in accrued liabilities	(81,017)
Total adjustments	828,721
NET CASH PROVIDED (USED BY OPERATING ACTIVITIES	\$ 1,079,253
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest expense	117,268

UTELITE CORPORATION--TAX STATEMENT OF RETAINED EARNINGS--INCOME TAX BASIS December 31, 1998

ACCUMULATED ADJUSTMENTS ACCOUNT	
Balance, January 1, 1998	\$ 561,318
Taxable Income	250,532
Distributions	(115,001)
Balance, December 31, 1998	696,849
PREVIOUSLY TAXED INCOME	
Balance, January 1, 1998	20,216
Distributions in Excess of the	
Accumulated Adjustments Account	0
Balance, December 31, 1998	20,216
OTHER RETAINED EARNINGS	
Balance, January 1, 1998	1,238,393
Balance, December 31, 1998	1,238,393
TOTAL RETAINED EARNINGS, DECEMBER 31, 1998	\$ 1,955,458

(See Accountant's Report)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Basis of Accounting

The Company's policy is to prepare its financial statements on the income tax basis of accounting; consequently, the Company recognizes depletion expense as the greater of cost depletion or statutory depletion. Under generally accepted accounting principles, only cost depletion is acceptable.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

Allowance for Doubtful Accounts

No reserve for bad debt has been established by the Company. Historically, uncollectible accounts receivable have not been significant enough to warrant establishing a reserve. Bad debts are written off as it becomes evident that they are uncollectible; any recoveries are included in income when received.

Inventories

Inventories are valued at the lower of cost or market under the first-in, first-out, (FIFO) method. Cost is determined using the Internal Revenue Code's guidelines with respect to uniform capitalization of inventory.

Depreciation

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated userful lives of the related assets using the accelerated cost recovery system and the modified accelerated cost recovery system required by the Internal Revenue Code.

Cash

For purposes of the statement of cash flows, the Company includes only cash on deposit and similar demand deposits that are not subject to withdrawal restrictions or material penalties as cash and cash equivalents.

(See Accountant's Report)

NOTE 2--PROFIT SHARING PLAN

The company maintains a 401(k) retirement plan for its employees. Company contributes a base 1% of all qualified participant's salary to the plan and will match up to 2% of any qualified participant's elective contributions. Additional discretionary contributions from the company are allowed.

Retirement plan contributions expensed as an employee benefit in these financial statements are \$35,081.84.

The company also provides a fringe benefit cafeteria plan for its employees.

NOTE 3--LONG-TERM DEBT

Long-term debt at December 31, 1998, consisted of the following:

1998

A note payable due First Security Leasing, incurred June 26, 1996. The note has a ten-year term, monthly principal and interest payments of \$16,236.35 and bears an interest rate of 9.59%. The proceeds from this loan were used to finance a major plant expansion. The Company added an additional kiln and the supporting equipment required to bring the kiln into production. The loan is secured by all the equipment and fixtures at the plant site.

\$ 789,977.76

Interest Expense on this loan in the amount of \$99,679.83 has been deducted in these financial statements.

A note payable due PFC Group, Inc., incurred January 27, 1997. The note has a five-year term, monthly principal and interest payments of \$3,945.04 and bears an interest rate of 8.45%. The proceeds from this loan were used to purchase the #3 baghouse including insulation and duct work, #3 ID fan and the #3 kiln internals. The loan is secured by that same equipment.

\$ 128,105.92

Interest expense on this loan in the amount of \$12,442.81 has been deducted in these financial statements.

A trust deed note payable due Elden F. and Juanita Lee B. Stembridge, incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$13,787.41 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 38.8888% interest in a tract of land in Summit County.

\$ 34,899.99

(See Accountant's Report)

No interest expense has been deducted in these financial statements.

A trust deed note payable due Thomas Edward Brown, Jr., incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$5,925.82 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 16.6666% interest in a tract of land in Summit County. \$ 15,000.00

No interest expense has been deducted in these financial statements.

A trust deed note payable due Geraldine B. Ercanbrack, Trustee of the Geraldine B. Ercanbrack Revocable Trust, incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$1,975.27 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 5.5555% interest in a tract of land in Summit County.

\$ 5,000.00

No interest expense has been deducted in these financial statements.

A trust deed note payable due Arlene E. Gibbons, incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$6,933.21 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 19.4333% interest in a tract of land in Summit County.

\$ 17,550.00

No interest expense has been deducted in these financial statements.

990,533.67
Less Current Portion (193,604.99)

Long-Term Debt <u>\$ 796.928.68</u>

Maturities of long-term debt are as follows:

Year Ending	
December 31,	Amount
2000	\$ 203,266.86
2001	222,882.56
2002	179,819.50
2003	183,630.56
2004	16,329.20
	\$ 796,928.68

(See Accountant's Report)

NOTE 4--RELATED PARTY TRANSACTIONS

Notes and other receivables at December 31, 1998 were due from the following related parties:

5% note receivable from a stockholder	\$ 162,229.04
9.25% note receivable from a stockholder-current	<u>25,000.00</u>
	\$ 187,229.04

NOTE 5--BUY/SELL AGREEMENT

The Company has entered into an agreement with its four stockholders that obligates the Company, upon the death of a stockholder, to purchase the deceased stockholder's stock in the Company. The purchase price is established by formula.

NOTE 6--CONTINGENT LIABILITIES

Six years ago a lawsuit was brought against Summit County and Summit County Planning Commission for improperly issuing a permit to the Company allowing them to build a rail loading facility in a certain location. In 1994, the Company was named as a defendant in that lawsuit.

As a result of a ruling in that lawsuit, the Company has paid \$15,000 to the Clerk of the Court to be held in escrow pending plaintiffs' appeal of that judgment.

Although no assurances can be given as to the outcome, the Company believes that it has meritorious defenses to such lawsuit. The Company does not believe that the outcome of such proceeding or the pending appeal will have a material effect on its financial position.